

Monitoring and evaluation as tools for enhancing public expenditure management in Ukraine

SERGII SLUKHAI, PhD*

Taras Shevchenko Kyiv National University, Kyiv

sergiis@yahoo.com

Review article**

JEL: H50

UDC: 336.5

* The author would like to thank two anonymous referees for their valuable comments. Also, the author expresses his gratitude to Ernst & Young LLC senior consultants Tetyana Danchenko and Konstantyn Sosnovsky for their inputs to the collection of some materials presented in this paper. This paper was composed during the implementation of the project "Development of Monitoring and Evaluation System for Program-Based Budgeting Methodology" carried out by Ernst&Young LLC for the Ukrainian Ministry of Finance (2010).

** Received: September 10, 2010

Accepted: April 7, 2011

Abstract

There are reasons to think that key elements of a performance-based budgeting methodology have already become a part of the mechanism for public expenditure management in Ukraine. At the same time, there still remains the issue of linking budget expenditures to the specific results achieved by specific budget programs. This defines the necessity of applying modern approaches to managing monitoring and evaluation (M&E). This study presents an analysis of the current state of M&E in Ukrainian public expenditure program management and offers some solutions which could improve its utilization.

Keywords: performance-based budgeting, monitoring, evaluation, budget program, major spending unit, state special-purpose program, Ukraine

1 INTRODUCTION

After gaining independence, Ukraine designed its national budget system. However, the public expenditure management methods traditionally applied (such as institution-based budgeting) inherited from the soviet past quickly came into contradiction with the turbulent economic and social reality, which demanded a much more effective and flexible usage of scarce public funds. The soviet-type paternalistic state became hostage to high social expectations that were unsupported by sufficient resources, ending in public finance collapse and hyperinflation in the beginning of the 1990s. The message here was clear: the existing methods of government expenditure management were inadequate. There was a great need to find the right linkage between public needs and the resources available, as well as to create motivation for public administrators to manage these resources with better outcomes.

Budget planning in the Ukrainian public sector before 2000 was built according to traditional soviet standards using incremental line-item budgeting. Under such a system, M&E activities were considered to be purely control measures aimed at checking the purpose-reliance of money usage within cost estimates of the main budget account holders (central and local bodies of the Executive). Since the expected results of public expenditures were not specified and not checked, all central government bodies performed activities reaching far beyond their natural scope (e.g., each of them run their own net of health care and educational establishments). The collapse of the country's public finance in the beginning of 1990s has proven that such an approach to budgeting cannot be justified anymore, and the government must deliver some publicly-justified results; thus, its bodies must perform only those activities which stem from their direct functional responsibilities and be accountable for them.

Being a democratic nation, looking towards Western values in its social priorities, Ukraine has made definite steps towards applying the core elements of performance-based budgeting (PBB) to the government of public expenditures since

1998, when major spending units (MSU)¹ at the national level became for the first time obliged to submit budget requests complemented by the basic goals to be achieved within the year.

This process of shifting to PBB was accelerated by the adoption of the Budget Code (2001), on both the national and the local level, and of the Concept of Program-Based Budgeting in the Budget Process (2002). MSUs responsibilities within the budget process were clarified – i.e. they became responsible for compiling budget requests, approving passports of budget programs (BP), and reporting on their execution; BP-based public expenditure classifications were enacted, etc. Since monitoring and evaluation are core elements of PBB, some regulations concerning the establishment of a monitoring and review system to trace progress in BP realization were enacted. External financial monitoring was vested in the Ministry of Finance (MoF), the Accounting Chamber, and the State Supervision and Control Service (KRU). The basic functions of BP monitoring were vested in MSUs. Consequently, one may assume that the Ukrainian government has achieved some progress in this field.

Nevertheless, as many Ukrainian public sector researchers showed (Sanzharovskiy and Polianski, 2007; Heyets, 2008; Krupka, 2009; Tertychka, 2002a, 2002b), there is still the absence of any unified approach to carrying out M&E and using its results for improving BP implementation, i.e. there is a shortage of instruments for tracking progress or evaluating the economic impact of public spending on specific BPs in view of national strategic goals. Moreover, there still remains a significant gap between the current M&E approach and the budget planning framework. In addition, the information widely spread by Ukrainian media along with current legal prosecution of the top officials of a previous government (in some cases connected with non-targeted usage of public money), suggests that in practice there are several flaws in current M&E procedures, which make possible unsatisfactory state budget execution, as well as weak accountability of public institutions and their administrators. Therefore, the current M&E system as part of PBB in Ukraine requires considerable updates and refinements, while its key elements should be reviewed and modernized according to the leading practices already implemented throughout the world.

Having as a background some recent positive developments in M&E sphere, the research questions of this paper could be set as follows: (1) to what extent does the current Ukrainian legislation provide a sufficient base for an effective M&E of public expenditure programs; (2) how do MSUs and governmental bodies carry out M&E activities in practice; (3) what could be done in order to make the Ukrainian M&E system more efficient? In order to cover these questions, the paper is

¹ According to Ukrainian legislation, major spending units are the separate national public bodies of different status (ministries, state committees, public agencies, etc.) which are assigned to receive allocations from the state budget as set by the Annual Budget Law.

divided into the following sections: firstly, we give a short theoretical overview of PBB and of the important component of M&E; secondly, we review the current situation of legal provisions for M&E; thirdly, the actual state of M&E is presented; finally, some conclusions and political recommendations are formulated.

2 MONITORING AND EVALUATION AS AN INTEGRAL PART OF PERFORMANCE-BASED BUDGETING

Being a part of a “new public management” concept, PBB has been a significant part of the modern practical approach to public budgeting in the early 1990s, being a recent development in the performance-based management domain². The concept of performance-based management itself, along with its basic components, could be considered an attempt to apply well-known business strategies in the management of big companies to the public sector in order to increase public trust in the government, which is widely believed to be inveterately inefficient. As Jack Diamond (2003) noted, its introduction jumpstarted the fundamental structural change of public budget management systems in many OECD countries and beyond.

In many countries, adoption of PBB could be considered a reaction to the problems associated with traditional line-item (incremental) budgeting, where public agencies were held accountable for the amounts of money they spent (so called “procedural accountability”), but not for the results achieved. So, the main goal of introducing PBB was to bridge a gap between spending on inputs dedicated to the agency’s program, and its real achievements in terms of specified performance indicators (PI), which are believed to truly reflect required social and economic improvements and in this way to switch public management to “result-based accountability”.

Basically, PBB involves setting public goals for programs reflecting national strategies that should be a benchmark for the success of any program-related spending; these long-term outcomes are based on medium-term results which, in turn, rely on delivery of specific products supposed to result from activities for which public funding was used. The linkage of public expenditure program funding, program implementation and the impact on the achievement of (societal and organizational) strategic objectives, is aimed at an optimum allocation of financial resources among program activities and producing higher social welfare. This also means: PBB is only possible when permanent monitoring of program implementation as well as periodical evaluation is involved.

To achieve the goals set, it is important regularly to monitor the progress of program execution and periodically to conduct an evaluation of its impact. As the strategic priorities and the amount of available financial resources may fluctuate (depending on many factors, especially in times of a global economic turbulence),

² An evolution of approaches to public budgeting up to date is well presented by Hilgers (2010).

the evaluation of programs against progress-in-goals-achieved must constitute an important element of PBB. Finding the right balance between spending flexibility and reaching publicly-expected results is a great challenge because the public goals themselves are subject to periodic revision (GAO, 2002). Of course, the degree of attainment of planned PI values – primarily indicators of impact – depends on the effectiveness of program implementation and is closely related to the quality of each related activity’s management.

It is obvious that PBB cannot solve all the problems encountered in public budgeting. Despite the time spent and the substantial efforts involved, one of the most critical issues in PBB remains finding links between performance planning and public resource allocation; these links must be secured during the planning phase of the budget process. As a study of early US experience showed (GAO, 1997); failure in this issue will undermine the positive results of PBB implementation. Some practical evidence suggests (Kentucky Legislative Research Commission, 2001), while PBB generated a higher level of accountability than in the traditional approach, it was not too successful in generating greater efficiency in public programs. The reasons why this promising approach did not give the expected results, may be rooted in the political component of budgeting, as some researchers argue (Thomas, 2007).

Since the primary goal of this paper lies in analyzing the M&E component of PBB, we first have to define these two interrelated specific activities – monitoring and evaluation. In accordance with notions used in documents of international organizations (Sanzharovskyi and Polianski, 2007:13-14), monitoring can be defined as a continuing function that uses systematic data collection on specified indicators to provide the management and the key stakeholders with ongoing information on the achievement of objectives and the usage of program-related funds. Monitoring data should be used in program evaluation.

Evaluation usually is defined as a systematic and objective assessment of an ongoing or completed project, program or policy, its design, implementation and results; its aim is to determine the activity relevance, measure the fulfilment of objectives, efficiency, effectiveness, impact, and sustainability. Evaluation should provide information that is credible and useful, enabling the incorporation of lessons learned into the decision-making process of all public sector stakeholders.

M&E should not only assist the public bodies and society in identifying whether goals, objectives and specific PIs have been achieved, but it should become an effective tool motivating implementers towards reaching the maximum possible level of fulfilment of the goals set within existing funding limits. M&E should allow users to operationally generate, obtain and use complete and reliable information on achieving PIs, determine the reasons for their deviation from the planned values which could (if necessary) be used for timely modifications in the

scale and scope of implementers' activities – e.g. whether to review the amounts of purpose-related public spending or not. It should also enable evaluation of short-term and long-term social and economic benefits obtained by the public due to successful realization of each separate program.

The core element of M&E activities is setting PIs whose values serve as a yardstick for measuring a program's success. In order to serve the goal of monitoring and assessing the program performance, they should have the desirable features of being relevant, bounded (not too extensive in number), clear, understandable, valid, reliable, timely, comparable, comprehensive, and reasonably within the control of those who are made accountable for their achievement (Jackson, 1995). Of course, it is an ideal which never can be reached in reality.

The best M&E practices are primarily inherent to international organizations and non-for-profit (nongovernmental) organizations (NPO) whose activities are under constant control of the donors. Their experience is generalized in some manuals and guides that are recommended especially for utilization in developing and transition countries³. However, individual countries tend to be selective in implementing the elements of M&E demonstrating approaches of their own that combine both universal and specific features⁴. Many transition countries achieved positive outcomes while introducing the modern M&E toolkit.

3 LEGAL BASIS FOR MONITORING AND EVALUATION OF PUBLIC EXPENDITURE PROGRAMS

There is no unified legal act in Ukraine which summarizes the mechanisms of PBB and M&E in the public sector, unlike in many other countries. It is worth mentioning e.g. the Government Performance and Results Act (GPRA), adopted in the USA in 1993, which was a landmark event in the history of administrative reform in this country and in the world. According to GPRA, governmental agencies were required to submit five-year strategic plans with measurable goals and performance targets; these plans were to be updated every three years; annual performance reports were to be submitted to the Congress; reports were to show three-year comparative data for PIs.

In Ukraine, the legal basis of PBB is constituted by a number of legal acts and bylaws issued by the Cabinet of Ministers of Ukraine (CMU), Ministry of Finance (MoF), and other authorized bodies (first of all the KRU). The most general act in this field is the Budget Code, first adopted in 2001 and then significantly revised in 2010. The Budget Code as of 2001 provided for the norms regulating implementation of audit and financial control: they should be carried out at all stages of the budget process, providing, among other things, for evaluation of operations and

³ Kuzek and Ray (2001), Mackay (2007), OECD (1998, 2008), Robinson and Last (2009), World Bank (2004), etc.

⁴ See e.g. Mackay (1998a, 1998b), OECD (2007).

compliance of the results thereof with the established tasks and plans. The MSUs were supposed to bear the responsibility for the organization and maintenance of internal financial control and audit at their subordinate institutions. External control and audit of financial and economic activities, as well as analysis of budget funds utilization efficiency, must be carried out by the Accounting Chamber and by KRU in the part of controlling usage of funds of the state budget of Ukraine. MoF was assigned the responsibility of controlling the compliance of budgeting procedures at all stages with the budgetary legislation, which referred to BPs as well. It is worth mentioning that this Budget Code version reflected the obsolete “procedural” approach to accountability and budget management; so that it did not even refer to “monitoring” (operating instead with terms like “control”) and “evaluation” (“audit”). Further developments in public management towards PBB demanded corresponding changes in legislation, which were enacted in 2010.

The current version of the Budget Code (2010) operates with more advanced instruments and directly assigned responsibility for performing BP evaluation and monitoring to MSUs. This evaluation must be based on PIs presented in BP documentation. The results of BP evaluation could be used for changing budgetary appropriations in the ongoing and sequential years. MoF became responsible for elaboration of PIs in different fields of public bodies’ activity.

Table 1 presents the division of basic responsibilities and functions as concerns PBB and M&E according to other valid legal acts and bylaws.

As visible in table 1, the most important subject to be monitored and evaluated (audited) since the PBB approach was adopted has been the BP. The main planning document on the basis of which M&E is to be carried out, is its passport. This passport should contain amounts of money assigned to a BP in a given year and PI values to be reached. The PIs include: (a) expenses (the scope and structure of resources which are provided for the BP, and the structure of expenses); (b) product (scale and scope of products manufactured, services rendered or work performed, number of consumers of goods, works, services); (c) efficiency measures like consumption of resources per unit of product (cost-effectiveness), relation between the quantity of the goods produced (works performed, services rendered) and the amount of resources allocated (productivity), reaching the objectives (performance); (d) quality (the resulting quality of the delivered product that satisfies the clients and reflects the declining negative or the growing positive trends in rendering services/goods as a result of funds spent on BP. The exact description of PIs is provided by the MoF in its Order No. 1252 as of 27th October 2009 “On Performance Indicators of Budget Programs”.

MSUs’ reporting on BP passport implementation to the MoF could be considered as a form of regular monitoring. But the problems that could immediately be identified are whether existing PIs really could serve for the purpose of evaluation. The reason for raising such a question stems from the very fact that PIs as defined above basically describe costs and products, but not outcomes and impact.

TABLE 1

Basic responsibilities of main actors in monitoring and evaluation according to current Ukrainian legislation

Legal act or bylaw on	Actor	Description of responsibilities
The Accounting Chamber of Ukraine (Law No. 315 as of 11/07/96)	Accounting Chamber of Ukraine	Controlling usage of the public funds according to requests of the Parliament of Ukraine, assessment of draft documents for programs which are supposed to receive the additional financing
	Program implementer (MSU)	Submitting annual, interim, and final reports on program implementation to CMU reflecting its effectiveness and outcomes; informing stakeholders on progress achieved
	CMU	Reviewing implementers' reports
	MoF	Reviewing annual budgeting proposals concerning specific programs, monitoring related BP planning and execution
The State Special-Purpose Programs (Law No. 1621 as of 18/03/04)	MSU	Controlling program task achievement
	KRU	Controlling target-related and efficient money spending within respective programs
Approval of the Concept of Program-Based Budgeting in the Budget Process (CMU Resolution No. 538 as of 14/09/02)	Program implementer (MSU)	Organizing BP implementation according to its passport which include BP objective, BP tasks, activities associated with BP, BP PIs
Approval of the Procedure for Development and Implementation of the State Special-Purpose Programs (CMU Resolution No. 106 as of 31/01/07)	Implementer (MSU)	Monitoring program fulfilment, regular (at least annual) reporting to governmental bodies and public on achieved results; carrying out analysis and evaluation of program implementation
Approval of the Procedure for Holding the State Financial Audit of Implementing Budget Programs by Bodies of the State Control and Audit Service (CMU Resolution No. 1017 as of 10/08/04)	KRU	Carrying out "effectiveness audits" to formulate proposals regarding increasing the effectiveness of using funds of the state and local budgets
The Passports of Budget Programs (MoF Order No. 1098 as of 29/12/02)	MSU	Quarterly and annual reporting to the MoF on carrying out the BP passport as concerns amounts of funding and reaching PIs; compiling the BP action plan for the respective budget year; reporting core factors responsible for deviation of PI actual values from the planned ones
	KRU	Carrying out control of the purpose-related usage of the funds allocated from the state budget to the BPs and of the effective program implementation
The Approval of the Procedure for Interaction of the Ministry of Finance of Ukraine as the Major Spending Units of the State Budget Funds and of the Responsible Implementers of Budget Programs at all Stages of the Budget Process (MoF Order No. 662 as of 30/05/07)	MSU	Carrying out activity monitoring of BP implementers on each stage of the budget process and evaluating feasibility of their three-year fiscal plans
	BP implementer (MSU)	Submitting feasibility evaluations concerning the three-year implementation period for a specific BP

Another point worth mentioning is the prevailing approach to BP evaluation. As concerns CMU and MoF, they mostly limit themselves to checking whether BP progress reports are submitted on time and whether the amounts of money were duly spent. It could be assumed that evaluation in the strict meaning of the word is being performed by the KRU in the form of a so called “effectiveness audit”. Its formal definition runs as follows: “state financial control directed at securing effectiveness of public fund usage as concerns realization of the planned goals and finding inhibiting parameters”. Such a definition differs significantly from classical notion of audit which assumes a control function over *quality of managerial activity*; evaluation, in contrast, is control of *program functioning* (Kuzmin et al., 2009). As we could see from the respective bylaws, the real content of “efficiency audit” goes far beyond “audit” *per se*, being essentially very close to “program evaluation”.

According to CMU Resolution No. 1017, the main tasks of effectiveness audits performed by the KRU are as follows: evaluation of BP result compliance with PIs; evaluation of effectiveness of BP execution; detection of blunders and flaws of an organizational, normative, legislative, or financial character that hamper the timely, full and due implementation of the planned objectives; establishment of the level of impact that the detected blunders and flaws have on the realization of the planned goal; elaboration of proposals regarding the methods (forms and approaches) of increasing the effectiveness of fund usage. The Resolution also defines the main instruments that should be utilized when carrying out an effectiveness audit, e.g. analysis of regulations, calculations and feasibility assessments, methodology employed, enactments and publications regarding the activity within a BP which undergoes an effectiveness audit; the results of previous controlling activities, parameters of statistical, financial and operating reporting; comparison of data on actually achieved PIs with the planned parameters in dynamics for several years, and with the nation-wide and foreign experience in the particular field of activities, etc. The respective audit reports must be submitted to MSU to raise BP effectiveness, as well as to other governmental bodies which are responsible for public funds usage.

There are some weak points in this “effectiveness audit” approach, namely vagueness in criteria of BP appraisal. According to the KRU Order “On Improving the Audit of Budget Program Effectiveness” (No. 444 as of 15th December 2005), effectiveness evaluation of BP fulfilment should be carried out using the following scale: it is “efficient” if the PI values exceed or equal expected ones related to the level of funding; it is “sub-efficient” if the level of PIs is slightly below that expected for the granted amount of funding; it is “inefficient” if the level of PIs is significantly lower than expected in relation to assigned funding.

Such an evaluation scale generates the following reasonable questions: (1) how can the aggregation of PI values be approached in order to see whether the overall

performance is “efficient” or not; (2) to what extent the PI aggregate value may deviate from the “appropriate” level, in order to be judged as “efficient”; (3) how is the appropriateness of the observed ratio between the amount of funding and overall PI levels defined? These questions remained unanswered, and this leads us to assume that many possibilities for subjectivity in BP evaluation are present.

Summing up, we should admit that from the formal point of view, the background for PBB and M&E is present to some extent in the Ukrainian public sector, although it has some problematic issues. M&E is carried out mainly in the planning phase (assessment of BP concerning its correspondence to the objectives of the state development strategy and funding capacity) and, to some extent, in the implementation phase (tracking BP cost estimate completion by the State Treasury and the MoF). As concerns the effectiveness audit, it is basically an *ex-post* control which is assumed to evaluate how a BP was performed after the budget year ended, so it has no implications for the ongoing budget process and needs to be performed as an element of medium-term and not only of short-term (annual) budgeting. The principal M&E risk under such a system could be associated with evaluation mechanisms where the procedures are formulated, but evaluation criteria are not well-defined, and with no possibility of correcting BP performance within its implementation stage (especially when it is assigned to support a mid-term state special-purpose program – SSPP), and, finally, with institutional/personal interrelations of “controllers” and the subjects of their activity – MSUs in the first line.

4 ACTUAL PERFORMANCE AND PROBLEMS IN MONITORING AND EVALUATION AREA

Basing on our analysis of the legal base for M&E, we get the perception that the actual state of M&E as part of PBB will not be very impressive. This is a common issue for many countries with a transition economy. Only a few countries have undertaken significant efforts in making government more accountable and achieved some success; still, an OECD publication (2007) did not find positive experience in such countries; Hilgers (2010) included in the list of countries with documented best achievements only one transition country (Latvia) among the many referred to in his study. The generalization of views on M&E development in the CIS realm (Kuzmin, 2006) involving polling of experts from ten CIS countries permit the following observations: (1) M&E activities in these countries were initiated by international donor organizations in the mid-1990s; (2) the willingness of governments to be monitored and evaluated is still generally weak in comparison to NPOs, but bigger than in corporates; (3) among the countries where the government demonstrated more or less success in instituting M&E systems (Armenia, Kazakhstan, Russia), this fact was likely strongly correlated with progress in PBB implementation and growing NPO involvement in carrying out public programs; (4) the governments in the CIS countries prefer using an internal and not an external evaluation while evaluating public expenditure programs.

The M&E performance in Ukraine's public sector is also interrelated with general PBB implementation issues and its problems could be divided into several groups. Firstly, it is worth discussing the core element of PBB – explicit formulation of public goals and readiness of the government to link scarce resources to the level of goal achievement. Secondly, imperfections inherent in the actual legal/normative base for M&E activities including organizational issues, clear definition of tasks and capacity to fulfil them. Thirdly, obstacles for M&E generated by BP scale and scope. Finally, governmental bodies' motivation and capacity to provide for a thorough M&E.

In a PBB framework, a first-rank prerequisite is the formulation of public goals for the government and its bodies; these goals through the use of specific PIs will serve as a yardstick for measuring the success or failure of a specific BP. The achievement of these goals and respective objectives is to be monitored and evaluated.

Formally, there are strategic goals that are presented in annual, medium-term and strategic governmental programs. But the problem is that these documents are too politicized and thus very vulnerable to political turbulence, which has been very characteristic of Ukraine in 2000s. Actually, the recent Ukrainian governments have not presented their activity programs at all since 2006 (a happy exception – the year 2009) despite the fact that this is a constitutional requirement; in some cases governmental program approval was blocked by the Parliament (2008). As concerns national strategy, the document for 15 years (adopted in 2006) was not intended to be passed by the Parliament and remained only a booklet to be presented to international organizations without big implications for BPs' priority setting.

Such a background of “strategic planning” could not have adequate budgetary support because with no clear-cut goals there is no need to widen the budget planning horizons: until recently, Ukraine performed only annual budget planning (in 2011 medium-term budget planning was formally introduced by the Budget Code). So we could assume that one of the fundamental problems of M&E of public expenditure programs was the lack of any medium-term planning of public expenditures on SSPPs which must be funded by appropriations from the state budget through respective BPs.

Lack of legitimately approved national strategic documents made state budget approval prone to the unjustified redistribution of funds between separate BPs during passing of the annual Law on the State Budget in the Ukrainian Parliament. Lobbying activities of parliamentary members representing the interests of large financial and industrial groups prevent the formulating of BP funding priorities in accordance with national interests and establishing a strict correlation between BP performance indicators and national strategic objectives.

This all creates a situation in which goals and objectives of different BPs as presented in their passports have no strict linkage to national priorities and the respective PIs are vaguely defined – which corresponds to the well-known political vulnerability of clearly-defined and measurable indicators. Thus, there is no need to assess BPs and evaluate their performance; most BPs included in the annual state budget just maintain the previously initiated governmental activities disregarding their results. This undermines the desire to implement and operate an effective M&E system as a crucial PBB element (Kusek and Rist, 2002; Mackay, 2006): there is a high risk that MSUs will not seriously consider their obligation to reach specified objectives in the course of implementing BPs.

As Canadian student Thomas (2007:8) argued concerning a widely used performance-management approach, “most informed commentators conclude that overall it has been disappointing. Among the implementation problems which have been documented are the following: performance plans for many agencies did not identify measurable outcomes for their programs; even those measures which existed were not precise enough to use in management and budgeting; reliance upon third parties (e.g. states, commercial firms and non-profits) to deliver programs made it difficult to obtain accurate and comparable data; agency results were affected by outside events and isolating program from non-program impacts was exceedingly difficult”. It is clear from this statement that even in the USA, which was one of the pioneers in PBB, the key element of the PBB concept – performance measurement and usage of the ensuing information – is one of the most problematic issues. The same is true for many other countries. As an OECD (2007) overview showed, OECD countries encountered critical problems while introducing performance measurement concerning: use of performance information in budgetary decision-making; relation of performance information to resources; measurement of activities; quality of information; making sure politicians use it in decision-making; lack of institutional capacity of the ministry of finance and spending ministries.

It is clear that all these problems are also inherent to the Ukrainian M&E system, but they are aggravated by an overall institutional weakness in the public administration system. The public administration is at the moment beyond the reach of parliamentary control. MPs, in turn, in the absence of political competition, do not feel they need to care much about promises given to the voters. So, individual officials seek positions in order to get a grip on free budget funding for their directly or indirectly controlled own businesses or exploit it for their own benefit. Under conditions where society is being alienated from the formulation of policy priorities and is deprived of information on the performance of publicly appointed officials, the situation with M&E could hardly be changed despite the modest steps undertaken.

However, at the strategic level of managing the budget system of Ukraine, the national government has constantly emphasized the need to enhance M&E, which

implies a rising awareness of the need for effective M&E procedures in order to increase the social and economic effectiveness of budget expenditures. Thus, the CMU “Declaration of goals and objectives of the budget policy for 2008” set tasks with regard to the development of “norms and standards of the unified legislative base of the state internal financial control system” and “implementation of a system of continuous monitoring and measurement of the budget program performance indicators for the purpose of managerial decision-making”. In an analogous 2009 declaration, a goal was set to “conduct monitoring of the effectiveness of BP fulfilment by means of improving evaluation criteria” to increase the effectiveness of public expenditures. Thus, we may state that the Ukrainian government, at least on paper, understands the need for better monitoring and evaluation of public expenditure programs. At the same time, in spite of the above mentioned declarations, the regulatory environment of M&E has remained rather disconnected, lacking the general methodology for M&E and incentives to implement it.

From the very beginning of PBB implementation, some researchers have discussed approaches to PI formulation (Pavlyuk, 2005). After the MoF approved its recommendations concerning PIs, it became clear that MSUs would not follow them properly. Some Ukrainian researchers noted the inadequacy of current PI sets used for M&E purposes: they do not truly reflect the effectiveness and efficiency of the spending of money on a BP implementation. Such conclusions were made concerning BPs in health care (Pryimak and Baryla, 2010), agriculture (Komarova, 2008) and some other areas. Our study of a BP dedicated to the state support of coal mining industry brought us to the same conclusion.

As it turned out, this specific BP’s structure has several flaws stemming from its limited effect on industry. One is a strict limitation as concerns eligible beneficiaries – only state-owned enterprises. Having in mind that many coal mining enterprises in Ukraine belong to private ownership in different forms, the overall effect of this BP on the coal industry may be doubtful. Alongside this issue, the reliability of information for PI values could be questioned: most data sources for PIs belong to MSU’s “internal projections”. The background data for justifying a specific PI’s value is not provided with BP documentation and thus is not analysed by any external authority (the MoF first of all).

The M&E of this program is based on some vague PIs specified in its passport. For instance, one of the efficiency PIs is “coal price”. An immediate question here arises: what kind of price serves as a PI? Since coal as a product has different qualities, each of which has its own market and thus price, we have to aggregate these prices in order to get a composite price measure. Whether this composite price could give us any rational information on what is going on in the coal mining industry is very doubtful. Even if we ignore this issue suggesting that composite coal price reflect true market signals, questions could arise on how the state subvention due to this BP could influence the overall coal price level. It is clear that

state support could be only one of many factors behind market supply-demand interaction (like import/export, prices of alternative types of energy, wages, electricity tariffs, etc.) affecting coal price.

Concerning reporting as a part of the M&E process, the study of this specific BP has brought us to the conclusion that it is far from sufficient. Firstly, the reports produced on a quarterly and annual basis are too short (e.g. the most extensive ones were 5–6 pages long, the shortest ones were a couple of pages long) with only quantitative information on PI achievement. Secondly, the deviations from targets set in the BP passport were not explained at all; in many cases there were officially no gaps found between targets specified in BP passports and those actually reached because the planned data usually had been corrected many times throughout the budget year⁵.

Trying to understand the general situation with M&E, we have to start with BP assessment. According to legislation, BP assessment in Ukraine has to be performed at the planning stage of the budget process. The most important actors here are MSUs and branch departments of the MoF which review their funding requests and BP documentation. At this stage, the core problem is that only amounts of funding are reviewed, while PIs and their values are not assessed. The reason for this is the following: PIs and their values are submitted and calculated only after the finalization of the budget planning stage, after fixing amounts of appropriations to each specific BP.

Our study of some other BPs showed that the authorized budget process participants concentrate during the PI implementation stage mainly on monitoring rather than evaluation activities. Currently, only three out of five elements of the program cycle are subject to effective M&E procedures: available resources, activities and products, which, in fact, are of a short-term nature. The elements that are of a medium- and long-term nature (effects and influences, their stability, etc.), as a rule, do not undergo significant detailed analysis from the BP implementer side and respective controlling authorities (MoF, KRU, and the like). At the same time, it must be noted that MSUs (and BP implementers) do not have special operational units or a corresponding administrative system to coordinate M&E activities. MSUs do not perform internal evaluation. Moreover, it seems that they are not really interested in performing it because the main form of such an “evaluation” is an internal financial audit aiming to check the purpose-related money spending and procedural legal compliance. Generally, action plans of M&E activities were not even compiled, and no funding was reserved in the BP cost estimate for monitoring or evaluation activities. Thus, monitoring is carried out mostly on the basis of tra-

⁵ As is emphasized in some of the recent studies (NDFI, 2009), the main factor to be considered here is under-funding of BP implementation. Under-funding is a usual practice of Ukrainian state budget execution especially in the recent three years when sequesters were a common issue. But there is no direct connection between BP results and the amount of funding, which is overlooked by respective authorities.

cing the achievement of planned financial indicators (money spending) and product indicators, while tracking of other data of BP passports is considered mostly a formality. As a rule, no independent experts are appointed in the evaluation.

Certain peculiarities of the Ukrainian approach to BP documentation make M&E quite problematic. Among these are obsolete forms/templates of main documents related to BP which prevent them from being utilized as effective instruments of M&E during implementation stage. BP passports include PIs which very often have no linkage to the BP goal. PIs are sometimes selected in a way that does not allow them to be measured directly because of the absence of relevant statistical information. Moreover, they may have no deep connection to the groups they are intended for (expenditures, product, efficiency, quality). The last group of PIs – quality – is the most controversial because it cannot be objectively assessed; so generally the relevance of using it in M&E is doubtful. This could be a reason for the absence of systematic evaluation of the goals and objectives of specific BP achievement levels and of analysis of the main factors which may have an impact on BP realization. Despite the fact that MSUs are obliged to submit (along with their periodical progress reports) detailed explanation on why PI values deviate from the set ones, they usually do not do it.

All these could be reasons why the practice of controlling the achievement of the BP planned indicators and purpose-related usage of public funds currently dominates the sphere of M&E. These issues were most often scrutinized in course of audits performed by the KRU.

As for the MoF, it monitors BP implementation on a quarterly basis. But the reviewing process produces poorly informative results because it also concentrates mainly on legality and purpose-reliance of money spending, thus duplicating functions of the KRU.

Reviewing of BP implementation, which is done by the KRU according to the CMU Resolution No. 1017 in the form of an effectiveness audit, could be considered a valid proxy mechanism for external BP evaluation in Ukraine. This type of audit, in contrast to traditional audits/inspections, provides analysis of the reasons leading to violations in financial discipline and ineffective usage of funds assigned to a specific BP, identifies weak places in BP administration and results in the formulation of proposals aimed at raising the effectiveness of budget spending. Actually, effectiveness audit findings differ from those of usual inspection materials since they do not contain instructions that are mandatory for MSUs and are not accompanied by preparation of a budget legislation violation protocol. Effectiveness audit reports are supposed to identify deficiencies in BP performance, to provide an objective and unbiased basis for revising funding needs for the next budget year or to raise the issue on BP cancellation due to its inappropriateness. Basing on auditors' recommendations, the MSUs could optimize costs, improve cost-efficiency, revise PIs, etc.

Despite all of the above, interviews with MSU representatives reveal that the KRU's effectiveness audits actually are not yet perceived by them as a useful tool aimed at improving BP effectiveness. Nowadays, there are many examples when KRU's audit findings were used not for finding ways of BP improvement, but for filing criminal charges against some perpetrators and the highest state officials. That is why realization of recommendations produced in the course of efficiency audits remains a big issue: in most cases MSUs do not approach these recommendations seriously enough, on grounds that "they know better how to run the BP". Their reaction to audit reports is rather offensive – frequently ranging from a letter of disagreement with findings followed by a long-lasting exchange of messages, to silently ignoring them. There are no mechanisms which could induce MSUs to adequately react to those findings, which could improve BP performance.

Carrying out effectiveness audits at BP implementers' demand is hardly practiced. Since 2005, only individual cases of the practice have been recorded, namely when new heads of ministries/departments were appointed because they showed true interest in knowing the real situation within their bureaus. Basically, the BP effectiveness audit is initiated by the KRU based on its economic/social importance and on the amount of public funding allocated. In addition, selection of the subject of audit depends on the requests of other public bodies like the Accounting Chamber, the State Tax Administration, the Customs Office, the State Treasury, etc.

The current register of BPs holds about 1,000 items, so it is not physically feasible for the KRU to audit all running BPs within a budget year. As a rule, only few of them undergo this procedure. For example, in 2008 the KRU held 18 effectiveness audits, in the course of which the effectiveness of 63 BPs was studied. In 2009, 14 effectiveness audits covered 54 BPs.

Given the current structure, the number of professional personnel of the service allows it to hold an audit of one BP once in every 15 years. In the case of annual evaluation, it is necessary to increase the number of personnel or to outsource more often. Presently, the KRU is unable to pay labour compensation to such experts, hence outsourcing has to be free of charge. In case of a radical decrease in the number of BPs in the future, the current KRU staffing might be sufficient for executing efficiency audits of all BPs.

Since the KRU's limited staff capacity is related to the amount of work required to have all BPs evaluated, the issue of BP scale and scope should be mentioned here because their overabundance and weak compliance to the PBB concept create significant problems for M&E performance.

There is no official classification of BPs in Ukraine. Some researchers insist on splitting BPs regarding their period of implementation into permanent ones (car-

ried out within several time periods) and annual ones (Krupka, 2009). From an M&E prospective, it would be also useful to distinguish BPs by functional criteria: (1) BPs related to the realization of government policy within the framework of the SSPPs (they should be considered permanent BPs); (2) BPs related to the financial support of governmental policy (e.g. transfer of funds to international organizations, etc.); (3) BPs related to administrative functions. All three BP types have been presented in the respective annual budget allocations; usually, the MSUs run all three different types of BPs simultaneously, which does not go well enough in line with PBB concept because specific functions assigned to MSU are split among several different programs, thus, also monitored and evaluated separately. We suppose that expanding the budgeting time horizon to mid-term planning provided in the current version of the Budget Code (2010) would require also merging these three BP types within the SSPP framework.

For now, most BPs belong to the second and third groups to which, in accordance to the Law “On the State Budget of Ukraine for 2009”, approximately 89 per cent of budgetary allocations should have been assigned. The remaining 11 per cent of budgetary allocations are assigned to the first group.

There is no explicit distinction in M&E procedures as concerns the BP of the above-mentioned groups. But obviously, the functional specificity of BP requires differing approaches to M&E. Taking this into account, the most complex are the BPs in the first group, determining the prospective development of the national economy and society in general. The problem with this group is BP average scale (see table 2).

TABLE 2

Distribution of BPs of the first group according to the planned amounts of funding for the 2009 budget year

Groups of BPs by amount of funding, UAH million	Number of BPs	Percentage to the total number of BPs	Total volume, UAH million	Percentage to the total amount of funding
Up to 1	111	41.1	1,976	6.6
1-20	94	34.8	583	2.0
20-100	32	11.8	1,536	5.1
100-500	22	8.1	3,406	11.5
500-2,500	9	3.3	10,378	34.9
Over 2,500	2	0.7	11,847	39.9
Total	270	100.0	29,726	100.0

Source: Author's calculation.

Based on the results of the analysis presented in table 2, 75 per cent of BPs related to the first group operate on a very small scale (with amounts less than UAH million 20); they accounted for only 9 per cent of budget expenditures in 2009; the average scale of a BP dedicated to governmental policy implementation barely reaches UAH million 10.

The problem is also that the small scale of a BP makes it almost impossible to measure their public impact and sustainability. That is the reason why the overseeing authorities opt for the simplest traditional (soviet-type) approach to evaluation – checking legality and purpose-reliance of public moneys spent without deeper investigation.

Weak public involvement in M&E of the activities of executive bodies responsible for BP implementation is a common issue for Ukraine. The information about progress in BP implementation is usually not made publicly available, and the beneficiary's influence on the formation and improvement of BPs is very modest or even negligible.

5 CONCLUSIONS

PBB and M&E as its integral part cannot be considered a panacea for a decisive improvement of public sector budgeting. However, reality is pushing the government to try new approaches proven as more effective for managing scarce resources dedicated to public service delivery, and to demonstrate its efficiency and growing accountability vis-à-vis societal demands.

In Ukraine, the M&E system with respect to BPs looks incomplete: the legal basics regarding M&E have been introduced, but a rigorous approach is still lacking. There is need for a unified legal frame for the whole public sector to regulate its institutional side and unify requirements for M&E implementation. The legislative and normative acts still lack definitions of the essence and tasks of “monitoring” and “evaluation” as concerns BPs and, thus, do not make formal distinctions between them. The current regulatory and legal framework does not allow a full-scale evaluation of BP fulfilment, and thus does not create proper grounds for increasing effectiveness in managing budget funds directed to a specific BP. As a result, effectiveness audit results obtained by the KRU do not permit a comparison of different BPs and respective managerial decisions.

Some drawbacks in the design and implementation of BPs are also observable: the linkage between BP goals/objectives and PIs assessing a program's progress, is weak; in many cases, PIs do not fit well for evaluation of BP performance; analysis of PI value deviations is missing; formal approach to BP action plan compilation makes it difficult to control its implementation. Direct observation has also demonstrated that the current regulatory and legal framework does not provide effective stimuli for using M&E as a tool for increasing the effectiveness of BP administration.

Activities in M&E are mostly dedicated to controlling of BPs' spending legality and purpose-reliance. External evaluation is conducted in form of efficiency audit (performed by the KRU) and covers many tasks usually performed in the course of program evaluation. The results of monitoring and effectiveness audits are not fully taken into account in the public decision making process; information resulting from M&E is not available to the public. KRU's activities in conducting effectiveness audits are not fully effective due to persisting imperfections in BP documentation, lack of qualified staff to carry out such evaluations on an annual basis, and the prevalence of *ex-post* analysis. Criteria for BP evaluation do not allow for an integral evaluation of program effectiveness, and, in the long run, for decision-making with regard to some BPs.

It must be noted that the formal character of M&E activities is largely preconditioned by the situation with the state finance of Ukraine, permanent budget sequesters and problems with annual state budget approval (in the course of the last several years, it has been approved with severe violations of the Budget Code). Given this, monitoring BP performance is deprived of any purpose in the absence of proper funding. At the same time, this preconditions a call for instituting a working M&E system, raising the issue of reviewing the list of BPs, banning its further extension, and broadening the budget planning horizon.

To make some steps in this direction, the changes in BP legal framework, an improvement of M&E procedures, and better institutionalizing could be suggested.

Legal framework

First of all, there exists an urgent need to develop a framework document concerning PBB and M&E in order to standardize the existing framework. As concerns the MoF, it would be highly desirable to approve a set of recommendations concerning M&E methodology to be implemented at the MSU level. There also needs to be an approved requirement for each BP to undergo a periodical evaluation procedure with regard to its specifics and nature.

Differentiation of approaches to monitoring and evaluation

With reference to the BP scale presented above, it would be useful to split BPs of the first functional group (those connected to SSPPs) by scale of annual funding from the state budget into "large" (requiring funding over some threshold – e.g. UAH 100 million or more) and "other" BPs (requiring less than threshold amount). "Large" BPs should be monitored with advanced instruments and undergo a more scrutinized assessment and evaluation procedure in comparison to the "other". Using this approach, it would be possible for controlling authorities to concentrate more on BPs with a higher risk of economic loss. The "other" BPs need to be assessed and evaluated from the point of view of their possible amalgamation, which will allow the KRU within short time period to progress to evaluating eventually all programs on a permanent basis, even under the current staffing.

With regard to BPs of the second group, it should be noted that M&E measures here could be limited to monitoring the timely realization of budget appropriations and guaranteeing the purpose-related usage of funds. Assessment of appropriateness of expenditures on BPs within the limits set should be realized by the MoF at the planning stage in the course of preparation of the draft Law on the State Budget. Monitoring these BPs could be carried out, first of all, by the State Treasury and the Accounting Chamber.

With regard to BPs of the third group (aimed at administrative services), M&E procedures could be directed at achieving the maximum possible efficiency and effectiveness of government authorities' activities. Evaluation should reveal the extent to which the governmental authorities carry out their functions successfully and cost-effectively. In the future these functions should be merged with programs of the first group and be subject to the normal M&E procedure.

Institutionalizing the monitoring and evaluation system

MSUs should institute a complex monitoring system basing on reliable data sources involving real-time on-line access of the authorized bodies to relevant BP information. To get this, new forms of BP documentation must be developed (BP passport, action plan, new format of BP performance report, etc.)

There are three possible trade-offs in the course of action concerning M&E in the Ukrainian public sector as we see it now. They differ in depth of required institutional changes.

The first (could be called “radical”) one involves pushing existing mechanisms towards making this system more objective and informative. Its prerequisite is the introduction of the institute of independent program evaluation. Today's KRU could not be considered an independent institution: it is subordinated to the MoF; its auditing activity is deeply biased (specific MSUs and public enterprises are under constant pressure, while others whose administrators have good personal relations with the highest officials are taboo), and mostly dedicated to “financial control”, not evaluation. The MoF could be recommended to create a special unit within its structure the functions of which will embrace methodological issues (e.g. recommendation of PIs, development of guidelines for monitoring for MSUs) and assessment of BP documentation at the planning stage. Within a transition period, evaluation functions could be retained by the KRU; afterwards, the KRU will be back to its usual job of financial audits, and evaluation will be handed over to the independent expert community.

Of course, an external evaluation would involve additional expenses. How high should they be? As a benchmark we could consider the five percent recommended for the non-commercial sector (Reed and Morariu, 2010) – but actually an average

NPO spends significantly less. So an appropriate expense level could be around one percent depending on BP scale and specifics.

The second (“modest”) option involves extending evaluation functions of the KRU to the assessment and yearly evaluation of all BPs. There are already some developments in this: in 2010, the KRU performed assessment of BPs documentation to be included into state budget in 2011. As the KRU lacks instruments of BP evaluation, something like PART in the USA could be introduced in order to rank the programs according to importance and efficiency or another approach to rank BP by effectiveness level.

The third course of action assumes that the current distribution of functions concerning M&E will basically remain the same: MSUs carry out monitoring, the MoF performs BP assessment, the KRU continues the effectiveness audit. But even in this case, some benefits will be gained if new procedures eliminating the drawbacks described above are introduced.

The choice among the possible approaches also depends on raising competitiveness among BP implementers. With the growing transparency of tendering procedures for public service procurement and bigger involvement of NPOs in public service delivery, the trend towards the most radical M&E approach could prevail.

LITERATURE

- Diamond, J., 2003.** "Performance Budgeting: Managing the Reform Process". *IMF Working Paper*, No. 03/33. Washington: International Monetary Fund.
- GAO, 1997.** *Performance Budgeting: Past Initiatives Offer Insights for GPRA Implementation*. Report to Congressional Committees. Washington, D.C.: GAO.
- GAO, 2002.** *Performance Budgeting: Opportunities and Challenges*. Statement of David M. Walker, Comptroller General. Washington, D.C., September 19.
- Heyets, V. M. (ed.), 2008.** *State Purpose-Oriented Programs and Regulation of Programming Process in the Budget Sphere*. Kyiv: Naukova Dumk.
- Hilgers, D., 2010.** "Management by Performance – Evolution, Current Development and Challenges of Public Performance Management". *International Journal of Business Research*, 10 (4), 40-55.
- Jackson, P. M., 1995.** *Measures for Success in the Public Sector*. London: The Public Finance Foundation.
- Kentucky Legislative Research Commission, 2001.** *Performance-Based Budgeting: Concepts and Examples*, Research Report # 302.
- Komarova, I., 2008.** "Effectiveness Evaluation of Budget Support in Agriculture". *Svit Finansiv*, (3), 145-153.
- Krupka, M., 2009.** "Program-Based Budgeting in Ukraine". *Bulletin of Lviv University, Economics Series*, 41, 16-34.
- Kusek, J. Z. and Rist, R. C., 2001.** "Building a Performance-Based Monitoring and Evaluation System. The Challenges Facing Developing Countries". *Evaluation Journal of Australasia*, 1 (2), 14-23.
- Kusek, J. Z. and Rist, R. C., 2002.** "Building Result-Based Monitoring and Evaluation Systems: Assessing Developing Countries Readiness". *Zeitschrift für Evaluation*, (1), 151-158.
- Kusek, J. Z. and Rist, R. C., 2004.** *Ten Steps to a Results-Based Monitoring and Evaluation System*. Washington, D.C.: The World Bank.
- Kuzmin, A. (ed.), 2006.** *Development in Program Evaluation in CIS Countries: A Subjective View on an Objective Process*.
- Kuzmin, A. I., O'Sullivan, R. and Kosheleva, N. A. (eds.), 2009.** *Program Evaluation: Methodology and Practice*. Moscow: Presto-RK.
- Mackay, K. (ed.), 1998a.** *Public Sector Performance – The Critical Role of Evaluation*. Selected Proceedings from a World Bank Seminar. Washington, D.C.: The World Bank.
- Mackay, K. (ed.), 1998b.** "The Development of Australia's Evaluation System". *ECD Working Paper Series*, No. 4, May 1998.
- Mackay, K., 2006.** "Institutionalization of Monitoring and Evaluation Systems to Improve Public Sector Management". *ECD Working Paper Series*, No. 15, January 2006.
- Mackay, K., 2007.** *How to Build M&E Systems to Support Better Government*. Washington, D.C.: The World Bank.
- NDFI, 2009.** *Methodological Basics of Enhancing Budget Programs' Efficiency, Intermediate Report*. Kyiv.

- OECD, 1998. "Best Practice Guidelines for Evaluation". *PUMA Policy Brief*, No. 5.
- OECD, 2007. *Performance Budgeting in OECD Countries*. Paris: OECD.
- OECD, 2008. "Performance Budgeting: A User's Guide". *OECD Policy Brief*, March 2008.
- OECD, 2009. *Measuring Government Activity*. Paris: OECD.
- Pavlyuk, K. V., 2005. "Evaluation of Budget Program Execution: Performance Indicators". *Financy Ukrayiny*, (2), 70-77.
- Pryjmak, C. V. and Baryla, L. Y., 2010. "Issues in Budget Program Execution Efficiency as Concerns Health Care System". *Bulletin of Lviv State Financial Academy*, 18, 157-164.
- Reed, E. and Morariu, J., 2010. *State of Evaluation 2010. Evaluation Practice and Capacity in the Non-Profit Sector*. Washington D.C.: Innovation Network.
- Robinson, M. and Last, D., 2009. *A Basic Model of Performance-Based Budgeting*. Washington, D.C.: IMF.
- Sanzharovskiy, I. and Polianski, Y., 2007. *Handbook on Monitoring and Evaluation of Programs for Regional Development*. Kyiv: KISS.
- Tertychka, V., 2002a. *Governmental Policy: Analysis and Implementation in Ukraine*. Kyiv: Osnovy.
- Tertychka, V., 2002b. "Issues in Effectiveness and Efficiency Evaluation within Public Policy Analysis". *Bulletin of Ukrainian Academy of Public Administration*, (1).
- Tertychka, V. and Kupryi, V.O., 2009. *Evaluation of Public Policy and Programs*. Kyiv: National Academy of Public Administration.
- Thomas, P. G., 2007. *Why Is Performance-Based Accountability So Popular in Theory and Difficult in Practice*. Paper Presented to the World Summit on Public Governance: Improving the Performance of Public Sector, Taipei City, May.
- World Bank, 2004. *Monitoring and Evaluation: Some Tools, Methods & Approaches*. Washington, D.C.: The World Bank.